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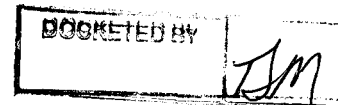
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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Arizona Corporation Commission
DOCKETED

MAY 24 2013



**APPLICATION OF RAY WATER
COMPANY FOR A PERMANENT
INCREASE IN ITS RATES**

Docket No. W-01380A-12-0254

POST-HEARING REPLY BRIEF

Ray Water Company, Inc. ("Ray" or "Company") hereby files its post-hearing reply brief.

I. Preliminary Statement

Prudent water companies drill replacement wells long before their customers run out of water. Based upon advice of its engineer and hydrologist, Ray took this approach.

As engineer Kara Festa explained:

Upon investigation five, six years ago, the water company, WestLand, Clear Creek, got together and looked at ... the overall capacity of the system and said ... there are wells in the system that are failed and failing infrastructure and you really need to think ahead, you need to plan ahead,

1 you need to be ahead of the failure of especially this well [Well 6], because
2 it was at that time of the larger producers in the water system, and ... start
3 thinking about ... replacing capacity in the water system."

4 Tr. at p. 110:22 - 111:7. Accordingly, after receiving Commission financing approval,
5 Ray installed Well 8. Today, Wells 3, 4, and 6 are at the end of their useful life. The
6 casings in these three old wells are corroded with gaping holes, have paper-thin casing
7 walls, and are so structurally unstable that they could collapse at any time if pumped too
8 vigorously. Currently, Well 4 is out of service. Well 6 is limited to emergency backup
9 status. Well 3 is cautiously used primarily to provide pressure in the local area where
10 the system is composed of old, small pipelines. Meanwhile, Well 2D, the Company's
11 largest well, has been out of service since early April. But due to Well 8, the Company
12 has been able to meet its customers' demands without risking catastrophic failure of its
13 old wells. The Company's forward thinking has averted a crisis as Well 8 safely
14 supplies water to Ray's customers.
15
16
17

18 But Staff continues to assert Well 8 is unnecessary. Staff's position seems to be
19 that Ray's customers should have to experience water shortages before the Company
20 installed Well 8:
21

22 Judge Martin. Question. [W]hat would have to happen before you would
23 have said ... Well 8 is definitely used and useful? What would had to have
24 happened?

25 Staff Engineer. Answer. Before they build Well No. 8?

26 Judge Martin. Question. [B]efore you said that Well 8 is used and useful
27 and should be included in rate base, what would the situation had to have
28 been?

Staff Engineer. Answer. **I don't know.** But most, most of the time I can

1 see they be coming, **have people saying they don't have water coming**
2 **from the faucet.** Then they start looking if their production is reduced or
3 checking the water table depleted and that type of thing.

4 ...
5 Judge Martin. Question. [H]ow is a company supposed to know what to do
6 with the level of comfort to know that, yes, we are going to be able to get
7 this into rate base?

8 Staff Engineer. Answer. **I don't know.**

9 Judge Martin. Question. Should they wait until service is disrupted
10 because there is a catastrophic failure?

11 Staff Engineer. Answer. **That's one possibility.**

12 Tr. at p. 349:15 – 350:17 (emphasis added). Meanwhile, during cross-examination of
13 the Company's engineer, Staff suggested that rather than drilling Well 8, the Company
14 could meet its customers' peak water demand on the Fourth of July by requiring its
15 customers to use less water by enforcing a curtailment tariff:

16 Staff Attorney. Question. So if the company on July 4th experienced a
17 surge of water usage, it could theoretically **apply a curtailment tariff and**
18 **reduced usage on its customers,** correct?

19 Festa. Answer. Theory and reality are sometimes very different things, but
20 in theory they could.

21 Tr. at p. 141:1-5 (emphasis added). The Company finds this position counter to its
22 responsibility to ensure that its customers have water on the hottest days of summer.

23 The issue before the court is clear: Knowing its three old wells are on the verge
24 of failure, did Ray act reasonably when it installed Well 8 before its customers suffered
25 water shortages and curtailment? If the answer is yes, then Well 8 should be included in
26 rate base.
27
28

II. Compromise Position

Ray understands rate cases often involve compromise, and while it still holds its same positions presented in the post-hearing brief, the Company is presenting a middle ground alternative on rates for the court's consideration:

- Include Well 8 in rate base;
- Include the additional rate case expense, which was driven by the Well 8 issue;
- Include the adjusted purchased power expense;
- Adopt a rate of return is 10.22%; and
- Adopt the Company's rate design.

In the spirit of compromise, the Company would no longer oppose Staff's other adjustments. Schedules illustrating this middle-ground position are set forth in Attachment 1. The only other issue to be addressed is the information sharing tariff, and the Company maintains its position on that matter.

III. Well 8 Is Needed

The uncontroverted testimony about the physical condition of the Company's wells illustrates that Ray's decision to plan ahead and get in front of the impending failure of its old Wells 3, 4, and 6 was correct. These wells – all past their expected life cycle – may structurally fail at any time. Wells 2D (which is now temporarily out of service), 7, and 8 are now the three backbone wells of the system. Simply stated, Well 8 is necessary.

1 **A. Old Wells 3, 4, and 6**

2 As registered geologist Marvin Glotfelty noted, “wells made of low carbon steel
3
4 ... the typical life span to the end of where they are no longer economically useful is
5 about 25 years on average.” Tr. at p. 157:7-11. After reviewing the camera recordings
6 of Wells 3, 4, and 6, Glotfelty made clear these wells are “at or near the end of [their]
7 economic life.” Tr. at p. 187:23-24. He clarified that Wells 3, 4, and 6 may structurally
8 fail at any time. Tr. at p. 183:15-18. The uncontroverted evidence concerning each of
9 these is that they are at end of their useful life and they “should not be relied upon as a
10 primary water source.” Tr. at p. 166:7-8.
11

12
13 Well 4. Well 4 was drilled 40 years ago (161:12) and has been out of service for
14 a year. Tr. at p. 109:25. After the pump was pulled, a video inspection showed “known
15 holes and issues with the casing ... had gotten worse and worse.” Tr. at p. 110:3-6. Here
16 is a sample of some of the observations of the Well 4 casing:
17

- 18 • “corrosion holes” Tr. at p. 161:15;
19 • “corrosion at shallow intervals” Tr. at p. 161:17;
20 • “... that casing ... is very thin and that more and more corrosion holes will
21 develop rapidly.” Tr. at p. 161:18-21;
22 • “about a quarter of the entire above casing is just missing.” Tr. at p. 162:6-7;
23 • “ragged edge of it where it has just been corroded away to nothing.” Tr. at p.
24 162:12-13;
25 • “cascading water” 163:16 causing “cavitating” Tr. at p. 164:13;
26 • cavitating “will damage a pump extensively and rapidly.” Tr. at p. 164:15-16;
27 and
28 • “... casing is full of holes.” Tr. at p. 257:22.

29 Under these conditions, Glotfelty explained “putting a pump in this and turning it on
30 could cause immediate collapse.” Tr. at p. 162:22-23. He further expounded, Well 4

1 should be used “only in emergencies and as a backup capacity well because of its
2 structural instability.” Tr. at p. 187:17-19. Glotfelty rationalized that the answer to
3 repairing Well No. 4 is likely to be “drill another well.” Tr. at p. 201:14. Fortunately
4 for the customers, the Company had the foresight to proactively drill Well 8 before Well
5 4 completely failed, so it does not need to drill a new well on an emergency basis.
6

7
8 Well 3. As Mrs. Rosenbaum explained, “Well No. 3 is going the way of Well
9 No.4, that went the way of the 2s, that went the way of No. 6. They are all the same.”
10 Tr. at p. 272:3-5. Engineer Kara Festa agreed, stating Well 3 “is basically at the end of
11 its useful life.... [W]e would consider that to be failed or failing capacity.” Tr. at p.
12 108:19-21. Festa described the well as in “very poor condition.” Tr. at p. 109:13-14.
13 She considers it to be “failing infrastructure.” Tr. at p. 109:20. Knowing it is 44 years
14 old – 20 years past its economic life expectancy – the following observations about Well
15 3 are not surprising:
16
17

- 18 • “corrosion holes in the casing.” Tr. at p. 157: 25;
- 19 • “big hole ... three or four inches top to bottom.” Tr. at p. 158:18-21;
- 20 • “if you pump this well, native sediment, sand, gravel, silt, clay, whatever is in
21 the formation will be coming in.” Tr. at p. 158:23-25;
- 22 • “... corrosion over the years has now made [the casing] wafer thin, like a sheet
23 of paper, like tinfoil.” Tr. at p. 159:9-12;
- 24 • “the well can collapse. If it collapses, it is a catastrophic failure.” Tr. at p.
25 159:16-17;
- 26 • The well casing is “maybe three or four sheets of paper” thick. Tr. at p. 160:2-6;
27 and
- 28 • “We are literally talking about house of card type of scenarios.” 160:7-8.

26 It is true that Ray routinely operates Well 3, primarily because it sustains higher pressure
27 in the local area. Tr. at p. 143:21 – 144:1. But as Glotfelty noted, “it is really on its last
28

1 legs and should not be relied upon as a primary water source for the system.” Tr. at p.
2 161:7-9.

3
4 Well 6. Likewise, Well 6 has exceeded “the typical life cycle for a low carbon
5 steel well.” Tr. at p. 164:21-23. As Festa explained, “it is not a well you would be able
6 to run or want to run on a daily basis.” Tr. at p. 112:22-23. Glotfelty concurred, stating
7 “... operating it on a routine day-to-day basis ... would be a bad idea.” Tr. at p. 170:5-6.

8
9 Well 6 was described as follows:

- 10
- 11 • “very poor condition.” Tr. at p. 110:21;
 - 12 • “severely wounded” Tr. at p. 199:12;
 - 13 • “corrosion hole has started to fracture” Tr. at p. 165:5;
 - 14 • casing “bulging out” Tr. at p. 165:11;
 - 15 • “failure of this older well casing.” Tr. at p. 165:15-16;
 - 16 • “tear” in the screen. Tr. at p. 165:17-24; and
 - 17 • “tear and corroded away, again like melted butter.” Tr. at p. 166:2-3.

18 This is why Glotfelty states Well 6 should be used “only in emergencies and as a backup
19 capacity well because of its structural instability.” Tr. at p. 187:17-19.

20 In sum, Wells 3, 4, and 6 are all past their expected lifespan. The overwhelming
21 and uncontroverted evidence is that these wells are no longer capable of being primary
22 wells. To do so would invite catastrophic failure.

23 **B. Backbone Wells 2D, 7, and 8**

24 As Festa explained, “the three backbone wells really are Well 2, Well 7, and Well
25 8.” Tr. at p. 124:19-20. Rosenbaum reiterated, “[t]hose three wells, 2D, 7, and 8, are the
26 backbone of my company.” Tr. at p. 237:22-23. Glotfelty concurred, stating “[u]nlike
27 the other ones (Wells 3, 4, and 6), they are reliable.” Tr. at p. 166:10-13. They are the
28

1 backbone of our water supply and I need them all.” Tr. at p. 237:22-25.

2 The reason Ray needs these three wells is because (a) Wells 3, 4, and 6 are
3 structurally unstable, and (b) even reliable wells require mechanical repairs. For
4 example, on April 10, 2013, the pump and motor in Well 2D failed due to iron bacteria
5 corroding the check valve. The well will be out of service for at least two months.
6 Fortunately, the Company has Well 8 in service to ensure the customers still have water
7 while Well 2D is under repair. This illustrates that Mrs. Rosenbaum was correct when
8 she said “Well No. 8 is absolutely necessary.” Tr. at p. 237:18
9

10
11 **C. Staff’s Theoretical “Paper Analysis” on Capacity Is Misguided.**

12 Kara Festa said it best when she remarked, “[t]heory and reality are sometimes
13 very different things...” Tr. at p. 141:4-5. Mrs. Rosenbaum made the same point,
14 stating, “when you look at something on paper and when you look at it in reality, it is
15 very different.” Tr. at p. 245:6-8. The Company proved beyond doubt that in reality,
16 the physical conditions of Wells 3, 4, and 6 mean they cannot be relied upon and Well 8
17 is needed. Staff did not offer any controverting evidence to dispute the physical
18 conditions of these wells or controvert the opinions of Glotfelty, Festa, or Rosenbaum
19 regarding the real world conditions of the wells. In fact, when Staff’s engineer was
20 asked if she had any reason to doubt the evidence presented by Glotfelty and Festa
21 regarding the conditions of the wells, she answered “No.” Tr. at p. 345:8-10.
22

23 But instead of taking into account the actual well conditions, Staff simply relied
24 upon its theoretical “paper” analysis. See Tr. at p. 312:23 – 313:6. Without any
25 consideration of the physical well conditions, Staff just added up the initial capacity of
26
27
28

1 the well to determine that all the Company needs is Wells 2D, 3, and 7. Tr. at p. 344:17-
2 21. While it is not entirely clear, Staff seems to be arguing that without Well 8, Wells 4
3 and 6 could meet the peak demand if Well 2D went down. See Tr. at p. 344:11-345.
4 But today, Well 2D is down, Well 4 is not in service, and Well 6 is structurally unstable.
5 Tr. at p. 187:19. The fact that Well 8, rather than Wells 4 and 6, is serving Ray's
6 customers today shows that Staff's theoretical approach could have easily proved
7 disastrous for the Company and its customers.
8

10 Further, Staff's assertion that the Company need only meet the average daily
11 demand in July is misguided. The Company is obligated to meet the highest water
12 demand on any given day. For instance, the Company has to be prepared to meet the
13 customers' high water demand at 3:00 p.m. on the Fourth of July. For Staff to suggest
14 that the Company should use its curtailment tariff to limit the customers' demands or let
15 the customers' faucets go dry on the hottest days of the year to keep Well 8 out of rate
16 base is remarkable and unsound. The Company has to meet the actual peak demand, not
17 some alleged average.
18

21 Staff's Responsive Brief illustrates that it still does not understand how Ray's
22 water system works. Staff argues in its brief that Well 8 cannot "replace" the water
23 provided by Wells 2D and 3 if either of these wells fail. This is simply wrong. As Festa
24 testified, the system is all interconnected and is one pressure zone. Tr. at p. 107:13-21.
25 When Well 2D is down, like today, Well 8 can pump more water into the system and
26 offset the loss of Well 2D. Well 8 can do the same for Well 3 if it goes off line. The
27 only difference is that Well 3 offers more pressure to the older part of the system where
28

1 the pipes are smaller. Thus, if Well 3 failed and Well 8 was pumped harder, then there
2 would be a pressure decrease in the northeastern area of the system, but those customers
3 would still have water and decent pressure. The fact that Staff does not understand how
4 the system works may explain why they are continuing to argue that Well 8 is "excess
5 capacity."
6

7
8 At the hearing Festa summarized the difference between the Company and Staff
9 positions:

10 [I]t comes down to looking at the capacity on paper and just adding up a
11 column of numbers that says you have got this many wells in a system ...
12 versus really looking at how a system operates, what the condition of the
13 infrastructure is and whether it can be used on a continuous and regular
14 basis and be considered reliable."

15 Tr. at p. 122:11-17. The Company prudently drilled Well 8 because it knows the
16 conditions of its infrastructure and how the system operates. Getting out in front of the
17 failures is not only prudent, but is necessary for public health and safety.

18 **IV. Rate Case Expense**

19 Staff's position that Well 8 is not used and useful (i.e., "excess capacity"), has
20 forced the Company to employ an engineer and a hydrologist to testify why this well is
21 necessary. See Tr. at p. 290-91. As Mrs. Rosenbaum remarked:

22
23 For the first time in 2012, Ray Water Company lost \$50,000. And that is
24 unprecedented. I believe that most - - one of the biggest problems has been
25 this rate case. Up until the end of January 31st of 2013, I spent \$59,000 on
26 rate case expenses. Just to give you an idea, my last rate case we spent
27 about \$12,000. And, of course, the reason that I have had to spend this
28 much money, most of the reason was to try to defend my need for Well No.
8, which to me is obvious that I need it.... I wouldn't have spent \$460,000
of Ray Water Company's money if I didn't need the well.

1 Tr. at p. 240-25 – 241:8.

2 In its response, Staff takes the position that no additional rate case expense should
3 be recovered because “Staff had previously determined [Well 8] was excess capacity
4” and Staff has not changed its position. *See* Staff’s Response at p. 5:3-6. This seems
5 to refer to the fact that Staff recommended to the Commission that it not allow Ray to
6 finance the Well 8 construction several years ago. Staff fails to mention, however, that
7 the Commission disagreed with Staff and approved the financing. Further, Staff
8 continues to ignore the fact that three of the Company’s wells are no longer capable of
9 being primary production wells and its largest well is currently out of service. While it
10 is true Staff’s opposition to Well 8 has been unwavering and uncompromising, this does
11 not mean the Company should not recover its rate case expense because it disagrees with
12 Staff’s position. This is especially true when the Company’s engineer and hydrologist
13 recommended drilling Well 8, the Commission approved its financing over Staff’s
14 objections, and Staff did not controvert any of the evidence illustrating that Wells 3, 4,
15 and 6 are in very poor condition. Thus, the Company was justified in opposing Staff’s
16 position and it should recover the additional rate case expense, especially if Well 8 is
17 included in rate base.

23 **V. Purchase Power**

24 The Company’s pro-forma adjustment to purchased power expense is entirely
25 appropriate. The Company’s rate case is based upon a 2011 Test Year. Going forward,
26 however, the Company’s power costs will increase substantially due to new rates for
27 Tucson Electric Power (“TEP”). *See* Tr. at p. 288-89 (Rowell). Without this
28

1 adjustment, the Company's actual power expense will be about \$15,270 more than what
2 is recognized in the rate case. *See* Company's Post-Hearing Brief, Attachment 2, Final
3 Schedule C-1, line 9 and C-2c.
4

5 To be clear, the Company is not trying to "overstate" the purchase power expense
6 as Staff claims. Knowing purchased power is a huge expense, the Company simply does
7 not want to have to absorb that financial hit without revenue to pay for it. If the
8 Commission does not agree with Staff's recommendation in the TEP case, then the
9 Company would not object to adjusting the purchase power expense accordingly.
10

11 But the Company finds it incredible that in one case Staff can recommend to the
12 Commission that TEP's customers pay a certain increase in rates, but in another case
13 Staff opposes allowing a small water company to generate revenues to pay for the same
14 TEP increase it is recommending. Apparently, Staff simply wants the small water
15 company to have to pay for the increase in purchased power out of its own pocket. This
16 is simply unreasonable. The Company should not be put in a position where the
17 revenues are not sufficient to meet the power expenses moving forward.
18
19
20

21 **VI. Return on Equity**

22 Staff's proposed return on equity ("ROE") of 9.1% is unreasonably low. It is
23 based on an analysis that Staff is unable to adequately defend. The Company's cost of
24 capital witness Matthew Rowell demonstrated that Staff's recommended ROE is well
25 below what other utilities around the country (including those used in Staff's sample) are
26 actually earning.
27
28

1 Further, it is also well below the ROEs granted by the Commission in recent rate
2 cases. In two recent Arizona Water Company cases the Commission granted ROE's of
3 10.55%¹ and 10%.² Staff has provided no compelling reason why an ROE well below
4 that earned by other utilities and previously allowed by the Commission is appropriate
5 for Ray. Mr. Rowell also demonstrated conclusively that Arizona's water utilities rarely
6 ever actually achieve their authorized ROE. This fact justifies a significant upward
7 adjustment to the authorized ROE. However, the Company is requesting the approval of
8 the moderate and reasonable ROE of only 10.22%.

11 **VII. Rate Design**

12 As Staff notes, 96% of Ray's customers are residential using a 5/8" meter.
13 Accordingly, the Company's rate design attempts to spread the rate increase fairly across
14 its customer base while following standard rate making procedures. See Attachment 1,
15 Schedule H-1 to H-3.

16 Staff, on the other hand, drastically shifts the rate increase to the commodity
17 charge and the high end water users. Although the Company currently receives 72% of
18 its revenue from its residential customers, Staff is proposing that this number should
19 drop to approximately 61%. In other words, 96% of Ray's customers will be generating
20 around 61% of its revenue. In theory, the high end users will make up the difference.
21 But in the real world, we all know that people and businesses confronted with incredibly
22 high water bills will find ways to conserve water, so that projected revenue never
23
24
25
26
27
28

¹ W-01445A-11-0310, Decision No. 73736 Feb 20, 2013 ROE = 10.55%

² W-01445A-10-0517, Decision No. 73144 May 1, 2012 ROE = 10%

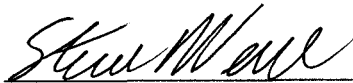
1 materializes. The end result will be that Ray's rate increase will be theoretical, and the
2 Company will never reach its revenue requirement. The Company will be financially
3 crushed so its residential water users will see an increase of less than 2% over 16 years.
4 Instead, the court should follow the Company's rate design, which spreads the increase
5 among its customers in a reasonable fashion.
6

7 **VIII. Conclusion**

8
9 In conclusion, the Company requests that the Court adopt its final positions set
10 forth in its Post-Hearing Brief. In the alternative, the Company requests that the Court
11 adopt the compromise position set forth herein.
12

13 RESPECTFULLY SUBMITTED this 24th day of May, 2013.

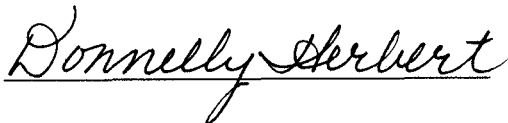
14 **MOYES SELLERS & HENDRICKS LTD.**

15
16 

17 Steve Wene

18
19 Original and 13 copies of the foregoing
20 filed this 24th day of May, 2013, with:

21 Docket Control
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, Arizona 85007

25 

ATTACHMENT 1

Ray Water Company
Summary of Differences Between Staff's Final Position and
Ray Water Compromise Position

Docket No. W-01380A-12-0254

	<u>Amount</u>
Company Compromise Plant	\$ 5,136,177
Staff Final Plant	4,676,727
Difference (Well 8)	<u>\$ 459,450</u>
Company Compromise Accumulated Depreciation	\$ (1,727,715)
Staff Final Accumulated Depreciation	(1,717,129)
Difference (Well 8)	<u>\$ (10,586)</u>
Company Compromise Rate Base	\$ 1,075,288
Staff Final Rate Base	626,424
Difference (Well 8 Net Cost)	<u>\$ 448,864</u>
<i>Company:</i>	
Compromise Rate Base	\$ 1,075,288
Company Rate of Return	10.22%
Proposed Operating Income	<u>\$ 109,922</u>
Company Compromise Operating Expenses	\$ 753,955
Staff Final Operating Expenses	672,782
Operating Expense Difference	<u>\$ 81,173</u>
Well 8 Depreciation Expense (including CIAC)	\$ 26,324
Purchased Power	15,270
Rate Case Expense	4,801
Income Taxes	32,289
Property Taxes	2,489
Detail of Operating Expense Difference	<u>\$ 81,173</u>
<i>Staff:</i>	
Final Rate Base	\$ 626,424
Rate of Return	9.10%
Recommended Operating Income	<u>\$ 57,005</u>
Company Proposed Operating Income	\$ 109,922
Staff Final Operating Income	57,005
Operating Income Difference	<u>\$ 52,918</u>
Operating Expense Difference	\$ 81,173
Operating Income Difference	52,918
Revenue Requirement Difference	<u>\$ 134,091</u>
Company Compromise Revenue Requirement	\$ 863,877
Staff Final Revenue Requirement	729,787
Revenue Requirement Difference	<u>\$ 134,091</u>

Ray Water Company

Docket No. W-01380A-12-0254

Test Year Ended December 31, 2011

Compromise Schedule A-1**Title: Computation of Increase in Gross
Revenue Requirements**

Explanation:

Schedule showing computation of increase in
gross revenue requirements and spread of revenue
increase by customer classification.

Required for: All Utilities

Class A

Class B

Class C

Class D

Special Reqmt

X

Line		Original Cost	RCND
1	Adjusted Rate Base	\$ 1,075,288 (a)	(a)
2	Adjusted Operating Income	\$ (75,828) (b)	(b)
3	Current Rate of Return	-7.05%	
4	Required Operating Income	\$ 109,922	
5	Required Rate of Return	10.22%	
6	Operating Income Deficiency (4 - 2)	\$ 185,750	
7	Gross Revenue Conversion Factor	1.524 (c)	(c)
8	Increase in Gross Revenue Requirements (6 x 7)	<u>\$ 283,063</u>	

	Customer Classification	Adjusted Revenue at Present Rates	Revenue at Compromise Rates	Projected Revenue Increase Due to Rates	% Dollar Increase	
9	Residential	\$ 491,575	\$ 723,763	\$ 232,188	47.23%	(d)
10	Commercial	64,867	110,174	45,307	69.85%	
11	Hydrant	1,881	3,698	1,817	96.62%	
12	Other	22,491	26,241	3,750	16.67%	
13	Total	<u>\$ 580,814</u>	<u>\$ 863,877</u>	<u>\$ 283,063</u>	<u>48.74%</u>	

Note: For combination utilities, the above information should be presented in total and by department.

Supporting Schedules:

(a) B-1 (c) C-3

(b) C-1 (d) H-1

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule B-2
Title: Original Cost Rate Base
Proforma Adjustments

Explanation:
Schedule showing pro forma adjustments to gross plant
in service and accumulated depreciation for the original
cost rate base.

Required for: All Utilities
Class A
Class B
Class C
Class D
Spec'l Reqmt

Line	Description	Actual at End Of Test Year (a)	Pro forma Adjustment 1	Pro forma Adjustment 2	Pro forma Adjustment 3	Pro forma Adjustment 4	Pro forma Adjustment 5	Pro forma Adjustment 6	Adjusted at End Of Test Year (b)
1	Gross Utility Plant in Service	\$ 5,261,065	\$ (20,250)			\$ (94,497)	\$ (10,141)		\$ 5,136,177
2	Less: Accumulated Depreciation	(1,834,663)	3,544	10,873		94,497	10,141	(12,107)	(1,727,715)
3	Net Utility Plant in Service	\$ 3,426,402	\$ (16,706)	\$ 10,873	\$ -	\$ -	\$ -	\$ (12,107)	\$ 3,408,462
4	Less:								
5	Advances in Aid of Construction	\$ (1,633,387)						\$ 158,487	\$ (1,474,900)
6	Contributions in Aid of Construction	(982,352)						(158,487)	(1,140,839)
7	Customer Security Deposits	(86,080)			(19,325)				(105,405)
8	Plus:								
9	Amortization of Contributions	\$ 260,433						127,537	\$ 387,970
10	Allowance for Working Capital	-							-
11	Total Rate Base	\$ 985,016	\$ (16,706)	\$ 10,873	\$ (19,325)	\$ -	\$ -	\$ 115,430	\$ 1,075,288

12 All pro forma adjustments should be adequately explained on this schedule or on attachments hereto.

13	Adjustment 1 - reflects the reduction to Transportation Equipment for three quarters the value of the SUV to match Staff (\$27,000 x 75%), and increases the related accumulated depreciation for the SUV value reduction (\$20,250 x 5% x 3.5 years).								\$ (20,250) \$ 3,544
14	Adjustment 2 - corrects excess depreciation in Meters (account 334), a portion of which became fully depreciated in 2009.								
15	2009 excess accumulated depreciation related to Meters						\$ 1,827		
16	2010 excess accumulated depreciation related to Meters						4,530		
17	2011 excess accumulated depreciation related to Meters						4,516		
18	Total decrease to Accumulated Depreciation - Adjustment 2							\$ 10,873	
19	Adjustment 3 - Adopt Staff Adjustment No. 9 on Schedule CSB-13								\$ (19,325)
20	Adjustment 4 - Capped/Inactive Well Retirements								
21	Well #1 Retirements						\$ 51,597		
22	Well #2B Retirements						28,272		
23	Well #2C Retirements						14,628		
24	Total Adjustment 4 for Well Retirements and related accumulated depreciation							\$ 94,497	
25	Adjustment 5 - Pumping Equipment related to Capped/Inactive Well Retirements								
26	Well #1 pumping equipment retirements						\$ 10,141		
27	Total Adjustment 5 for Pumping Equipment for Well Retirements and related accumulated depreciation							\$ 10,141	
28	Adjustment 6 - Adopt Staff Adjustment No.'s 6, 7, and 8 on Staff Final Schedule CSB-4								
29	Staff Adjustment 6						\$ (158,487)		
30	Staff Adjustment 7						158,487		
31	Staff Adjustment 8						127,537		
32	Additional Adjustment to match Staff Accumulated Depreciation per Staff Final Schedule CSB-4 (excepts amounts related to Well 8)						(12,107)		
33	Total Adjustment 6 to match Staff Final Schedule Amounts							\$ 115,430	

NOTE: For combination utilities, above information should be presented in total and by department.

Supporting Schedules:
(a) E-1

Recap Schedules:
(b) B-1

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule C-1
Title: Adjusted Test Year Income
Statement

Explanation:
Schedule showing statement of income for the test year,
including pro forma adjustments.

Required for:	All Utilities	<input checked="" type="checkbox"/>
	Class A	<input type="checkbox"/>
	Class B	<input type="checkbox"/>
	Class C	<input type="checkbox"/>
	Class D	<input type="checkbox"/>
	Specd Reqmt	<input type="checkbox"/>

Line	Acct	Description	Actual for Test Year Ended (a) 31-Dec-11	Ref	Proforma Adjustments (b)	Test Year Results After Pro Forma Adjustments	Ref	Proposed Rate Increase	Adjusted Test Year With Rate Increase
Operating Revenues:									
1	461	Metered Water Revenue	\$ 559,457	A1	\$ (1,134)	\$ 558,323	P	\$ 279,313	\$ 837,636
2	460	Unmetered Water Revenue	-			-			-
3	474	Other Water Revenue	26,651	A2	(4,160)	22,491	U	3,750	26,241
4		Total Operating Revenue	\$ 586,108		\$ (5,294)	\$ 580,814		\$ 283,063	\$ 863,877
Operating Expenses:									
6	601	Salaries and Wages	\$ 226,744	S	\$ (30,259)	\$ 196,485			\$ 196,485 x
7	604	Employee Pensions and Benefits	-	B	4,550	4,550			4,550 x
8	610	Purchased Water	-			-			-
9	615	Purchased Power	82,011	C	15,270	97,281			97,281
10	618	Chemicals	-			-			-
11	620	Materials & Supplies	2,347			2,347			2,347 x
12	621	Office Supplies and Expense	11,481	D	10,709	22,190			22,190 x
13	630	Contractual Services - Billing	69,767			69,767			69,767 x
14	631	Contractual Services - Professional	17,001			17,001			17,001 x
15	635	Contractual Services - Testing	1,375	E	5,240	6,615			6,615 x
16	636	Contractual Services - Other	11,459	F	(546)	10,913			10,913 x
17	640	Rents	22,000	T	(2,200)	19,800			19,800 x
18	650	Transportation Expenses	13,316	R	(4,110)	9,206			9,206 x
19	655	Insurance	10,590			10,590			10,590 x
20	665	Rate Case Expense	3,000	G	11,801	14,801			14,801
21	670	Bad Debt Expense	-	H	295	295			295 x
22	675	Miscellaneous Expenses	23,473	I	(13,811)	9,662			9,662 x
23	403	Depreciation Expenses	169,486	J	(15,947)	153,539			153,539
24	408	Taxes Other Than Income	18,527	K	(1,414)	17,113			17,113 x
25	408.11	Property Taxes	32,260	L1	111	32,371	L2	5,255	37,626
26	409	Income Taxes	(43,940)	M	343	(43,597)	Q	92,058	48,461
27	427.4	Interest Expense - Customer Deposits	5,713			5,713			5,713 x
28		Total Operating Expenses	\$ 676,610		\$ (19,968)	\$ 656,642		\$ 97,313	\$ 753,955
28		OPERATING INCOME/(LOSS)	\$ (90,502)		\$ 14,674	\$ (75,828)	(c)	\$ 185,750	\$ 109,922
Other Income/(Expense):									
30	419	Interest Income	\$ 492			\$ 492			\$ 492
31	421	Non-Utility Income	4,548	A2	(4,548)	-			-
32	426	Miscellaneous Non-Utility Expenses	(5,032)	N	5,032	-			-
33	427	Interest Expense		O	(5,020)	(5,020)			(5,020)
34		Total Other Income/(Expense)	\$ 8		\$ (4,536)	\$ (4,528)		\$ -	\$ (4,528)
35		NET INCOME/(LOSS)	\$ (90,494)		\$ 10,138	\$ (80,356)		\$ 185,750	\$ 105,395

Adjustments that differ from the Final Schedules filed:

J	See Schedule Adjustment J	Q	See Schedule Adjustment Q
L2	See Schedule Adjustment L2	R	To adopt Staff amount per schedule CSB-16
M	See Schedule Adjustment M	T	To adopt Staff amount per schedule CSB-16
P	Calculated Per Compromise Schedule A-1	U	To adopt Staff amount per schedule CSB-16

Ray Water Company

Docket No. W-01380A-12-0254

Test Year Ended December 31, 2011

Compromise Schedule Adjustment J**Title: Income Statement Proforma****Adjustments**

1	Staff Gross Depreciation Expense	\$	184,440
2	Well 8 Annual Depreciation Expense		8,952
3	Well 8 Pumping Equipment Depreciation Expense		19,329
4	Company Compromise Gross Annual Depredation Expense	\$	<u>212,720</u>
5	Staff Amount of Depreciable Plant	\$	3,677,131
6	Well 8 Cost		268,821
7	Well 8 Pumping Equipment Cost		154,629
8	Company Compromise Depreciable Plant	\$	<u>4,100,581</u>
9	Revised CIAC Amortization Rate (Line 4 / Line 8)		5.19%
10	CIAC Amount	\$	<u>1,140,839</u>
11	Annual CIAC Amortization Amount	\$	<u>59,182</u>
12	Company Compromise Gross Annual Depredation Expense	\$	212,720
13	Annual CIAC Amortization Amount		(59,182)
14	Company Compromise Net Annual Depreciation Expense	\$	<u><u>153,539</u></u>

DETAIL OF PROPERTY TAX EXPENSE ADJUSTMENTS L1 AND L2

Line		Test Year as Adjusted	Company at Proposed Rates
1	Adjusted 2011 Test Year Revenue	\$ 580,814	\$ 580,814
2	Weight Factor	2	2
3	Subtotal	\$ 1,161,628	\$ 1,161,628
4	Company Recommended Revenue	580,814	863,877
5	Subtotal	\$ 1,742,442	\$ 2,025,505
6	Number of Years	3	3
7	Three Year Revenue Average	\$ 580,814	\$ 675,168
8	AZ Department of Revenue Multiplier	2	2
9	Revenue Base Value	\$ 1,161,628	\$ 1,350,337
10	Plus 10% of CWIP	830	830
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value	\$ 1,162,458	\$ 1,351,167
13	Assessment Ratio	21.00%	21.00%
14	Assessment Value	\$ 244,116	\$ 283,745
15	Composite Property Tax Rate *	13.2606%	13.2606%
16	Adjusted Test Year Property Tax Expense	\$ 32,371	
17	Actual Test Year Property Tax Expense	32,260	
18	Total Adjustment L1	\$ 111	
19	Projected Property Tax Expense		\$ 37,626
20	Adjusted Test Year Property Tax Expense		32,371
21	Total Adjustment L2		\$ 5,255
22	<i>* Property tax composite rate calculation:</i>		
23	Assessed Value per 2011 Property Tax Notices	\$ 242,022	
24	Property Tax due per 2011 Notices	32,094	
25	Composite Property Tax Rate	13.2606%	
26	<i>For Gross Revenue Conversion Factor:</i>		
27	Change in Property Tax Expense	\$ 5,255	
28	Change in Revenue Requirement	283,063	
29	Change in Property Tax per Dollar Increase in Revenue	1.8565%	

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule Adjustment M
Title: Income Statement Proforma
Adjustments

CALCULATION OF ADJUSTMENT M TO TEST YEAR INCOME TAX EXPENSES

Line	Description		
1	Operating Income/(Loss) Before Taxes	\$ (119,425)	
2	Add Interest Income	492	
3	Less Estimated Interest Expense	<u>(5,020)</u>	
4	Arizona Taxable Income	\$ (123,952)	
5	Arizona Income Tax Rate	<u>6.9680%</u>	
6	Arizona Income Tax Expense		\$ (8,637)
7	Federal Taxable Income	\$ (132,590)	
8	Federal Tax on \$1 to \$50,000 Income Bracket	15.00% (7,500)	
9	Federal Tax on \$50,001 to \$75,000 Income Bracket	25.00% (6,250)	
10	Federal Tax on \$75,001 to \$100,000 Income Bracket	34.00% (8,500)	
11	Federal Tax on \$100,001 to \$335,000 Income Bracket	39.00% <u>(12,710)</u>	
12	Federal Income Tax Expense		<u>(34,960)</u>
13	Adjusted Test Year Income Tax Expense		\$ (43,597)
14	Test Year Income Tax Expense		<u>(43,940)</u>
15	Total Adjustment M to Income Taxes	\$	<u><u>343</u></u>

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule Adjustment Q
Title: Income Statement Proforma
Adjustments

CALCULATION OF ADJUSTMENT Q FOR PROPOSED INCOME TAX EXPENSES

<u>Line</u>				
1	Revenue	\$	863,877	
2	Operating Expenses Excluding Income Tax		(705,494)	
3	Interest Income		492	
4	Estimated Interest Expense		(5,020)	
5	Arizona Taxable Income			\$ 153,856
6	Arizona Income Tax Rate			6.9680%
7	Arizona Income Tax Expense			\$ 10,721
8	Federal Taxable Income			\$ 143,135
9	Federal Tax Rate (from C-2m, line 18)			26.37%
10	Total Federal Income Tax Expense			\$ 37,740
11	Combined Federal and State Income Tax Expense			\$ 48,461
12	Adjusted Test Year Income Tax Expense			(43,597)
13	Adjustment Q to Proposed Income Tax Expense			\$ 92,058
14	Revenue Check:			
15	Required Operating Income	\$	109,922	
16	Adjusted Test Year Operating Income/(Loss)		(75,828)	
17	Proposed Increase In Operating Income			\$ 185,750
18	Income Taxes On Proposed Revenue	\$	48,461	
19	Income Taxes On Test Year Revenue		(43,597)	
20	Proposed Revenue Increase For Income Taxes			\$ 92,058
21	Property Taxes On Proposed Revenue	\$	37,626	
22	Property Taxes On Test Year Revenue		32,371	
23	Proposed Revenue Increase For Property Taxes			\$ 5,255
24	Total Proposed Increase In Revenue			\$ 283,063

Ray Water Company

Docket No. W-01380A-12-0254

Test Year Ended December 31, 2011

Compromise Schedule C-3**Title: Computation of Gross Revenue****Conversion Factor**

Explanation:

Schedule showing incremental taxes on gross revenues and the development of a gross revenue conversion factor.

Required for: All Utilities

Class A

Class B

Class C

Class D

Spec'l Reqmt

X

Line	Description	Rate	Calculation
1	Revenues		1.0000
2	Property Taxes	1.856%	<u>(0.0186)</u>
3	Arizona Taxable Income		0.9814
4	Arizona Income Tax	6.968%	<u>(0.0684)</u>
5	Federal Taxable Income		0.9130
6	Federal Income Tax	28.13%	(0.2568)
7	Operating Income		<u>0.6562</u>
8	Gross Revenue Conversion Factor (Line 1 / Line 7)		<u><u>1.5239</u></u>

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule H-1
Title: Summary of Revenues by Customer
Classification - Present and Proposed Rates

Explanation:
Schedule comparing revenues by customer classification for
the Test Year, at present and proposed rates.

Required for: All Utilities ☒
Class A ☐
Class B ☐
Class C ☐
Class D ☐
Spec'l Reqmt ☐

		Revenues in the Test Year (a)			Proposed Increase (b)			
Line	Customer Classification	Present Rates	Adjustments	Adjusted Present Rates	Proposed Rates	Amount	%	
Residential								
1	5/8 by 3/4-inch	\$ 404,695		\$ 404,695	\$ 567,343	\$ 162,648	40.19%	
2	1-inch	12,343		12,343	16,835	4,492	36.40%	
3	1 1/2-inch	2,332		2,332	3,218	886	37.99%	
4	2-inch	12,402		12,402	17,775	5,373	43.32%	
5	4-inch	59,803		59,803	118,593	58,790	98.31%	
6	Total Residential	\$ 491,575	\$ -	\$ 491,575	\$ 723,763	\$ 232,188	47.23%	
Commercial								
7	5/8 by 3/4-inch	\$ 10,853		\$ 10,853	\$ 19,601	\$ 8,748	80.60%	
8	1-inch	11,691		11,691	13,025	1,334	11.41%	
9	1 1/2-inch	760		760	1,033	273	35.92%	
10	2-inch	7,736		7,736	9,524	1,788	23.12%	
11	3-inch	12,051		12,051	23,364	11,313	93.87%	
12	4-inch	1,134	(1,134)	-	-	-	0.00%	
13	6-inch	21,776		21,776	43,627	21,851	100.35%	
14	Total Commercial	\$ 66,001	\$ (1,134)	\$ 64,867	\$ 110,174	\$ 45,307	69.85%	
15	Hydrant Sales	1,881		1,881	\$ 3,698	1,817	96.62%	
16	Total Metered Water Revenue	\$ 559,457	\$ (1,134)	\$ 558,323	\$ 837,636	279,313	50.03%	
17	Other Revenue	26,651		26,651	22,491	(4,160)	-15.61%	
18	Total Revenue	\$ 586,108	\$ (1,134)	\$ 584,974	\$ 860,127	\$ 275,153	47.04%	

Note: For combination utilities, above information should be presented in total and by department.

Supporting Schedules:
(a) N/A

Recap Schedules:
(b) A-1

Ray Water Company
Docket No. W-01380A-12-0254
Test Year Ended December 31, 2011

Compromise Schedule H-3
Title: Changes in Representative Rate
Schedules - Page 1 of 2

Explanation:
Schedule comparing present rate schedules with proposed
rate schedule.

(Rates apply to both residential and commercial usage)

Required for: All Utilities ☒
Class A ☐
Class B ☐
Class C ☐
Class D ☐
Specd Reqmt ☐

Description	Present Rate	Proposed Rate	% change
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 11.15	\$ 20.00	79.37%
3/4" Meter	25.00	30.00	20.00%
1" Meter	39.00	42.50	8.97%
1-1/2" Meter	62.00	85.00	37.10%
2" Meter	110.00	136.00	23.64%
3" Meter	125.00	272.00	117.60%
4" Meter	165.00	425.00	157.58%
6" Meter	330.00	850.00	157.58%

Description	Present Rate	Proposed Rate	
<u>COMMODITY CHARGES - Per 1,000 Gallons</u>			
<u>5/8 x 3/4-inch and 3/4-inch Meters</u>			
1 - 3,000 Gallons	\$ 1.55	\$ 1.00	-35.48%
3,001 to 7,000 Gallons	1.55	1.30	-16.13%
7,001 to 25,000 Gallons	1.55	2.50	61.29%
Over 25,000 Gallons	1.55	3.05	96.77%
<u>1-inch, 1 1/2-inch, and 2-inch Meters</u>			
1 - 20,000 Gallons	\$ 1.55	1.30	-16.13%
Over 20,000 Gallons	1.55	3.05	96.77%
<u>3-inch Meters</u>			
1 - 30,000 Gallons	\$ 1.55	\$ 1.30	-16.13%
Over 30,000 Gallons	1.55	3.05	96.77%
<u>4-inch Meters</u>			
1 - 60,000 Gallons	\$ 1.55	\$ 1.30	-16.13%
Over 60,000 Gallons	1.55	3.05	96.77%
<u>6-inch Meters</u>			
1 - 85,000 Gallons	\$ 1.55	\$ 1.30	-16.13%
Over 85,000 Gallons	1.55	3.05	96.77%
<u>Standpipe sales</u>			
Per 1,000 gallons	\$ 1.55	\$ 3.05	96.77%

Description	Present Rate	Proposed Rate	% change
<u>SERVICE CHARGES</u>			
Establishment	\$ 25.00	\$ 30.00	20.00%
Establishment (After Hours)	37.50	N/A	
Reconnection (Delinquent)	25.00	35.00	40.00%
Meter Test (If Correct)	30.00	30.00	0.00%
Deposit	*	*	0.00%
Deposit Interest	*	*	0.00%
Reestablishment (Within 12 Months)	**	**	0.00%
NSF Check	\$ 15.00	\$ 25.00	66.67%
Deferred Payment	***	***	0.00%
Meter Re-read (If Correct)	\$ 15.00	\$ 20.00	33.33%
Late Payment Fee	***	\$ 5.00	
After Hours Charge	N/A	\$ 25.00	

* Per A.A.C. R14-2-403(B)

** Months off system times the minimum (R14-2-403.D)

*** 1.50 percent per month of unpaid balance

SERVICE LINE AND METER INSTALLATION CHARGES:

Refundable Pursuant to A.A.C. R14-2-405		Proposed Rates			% change
Description	Present Rate	Service Line	Meter Charge	Total Charge	
5/8" x 3/4" Meter	\$ 410.00	\$ 445.00	\$ 155.00	\$ 600.00	46.34%
3/4" Meter	455.00	445.00	255.00	700.00	53.85%
1" Meter	520.00	495.00	315.00	810.00	55.77%
1-1/2" Meter	740.00	550.00	525.00	1,075.00	45.27%
2" Meter - Turbine	1,235.00	830.00	1,045.00	1,875.00	51.82%
2" Meter - Compound	1,800.00	830.00	1,890.00	2,720.00	51.11%
3" Meter - Turbine	1,705.00	1,045.00	1,670.00	2,715.00	59.24%
3" Meter - Compound	2,340.00	1,165.00	2,545.00	3,710.00	58.55%
4" Meter - Turbine	2,700.00	1,490.00	2,670.00	4,160.00	54.07%
4" Meter - Compound	3,405.00	1,670.00	3,645.00	5,315.00	56.09%
6" Meter - Turbine	5,035.00	2,210.00	5,025.00	7,235.00	43.69%
6" Meter - Compound	6,510.00	2,330.00	6,920.00	9,250.00	42.09%
8" Meter	Cost			Cost	0.00%

NOTES:

A - Additional costs associated with service line installations in major traffic thoroughfares, such as but not limited to, underground borings, cutting and repaving, and traffic control, may be added to the above tariff at actual cost.

B - Major thoroughfares are as follows: Alvernon Way, Drexal Road, Benson Highway, Irvington Road, Palo Verde, Valencia, Country Club, Columbus, East Side of Belvedere, Felix, Nebraska between Palo Verde and Madison, Northeast side of Concord Strav.

C - Charges for meters and service lines larger than 6 inches shall be at actual cost.

Supporting Schedules: